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**A Market for Immigration**

by

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## A Market for Immigration

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### ABSTRACT

*Illegal immigration imposes large economic costs on U.S. taxpayers. The costs are disproportionately concentrated on citizens of southern border states and of other states in which illegal immigrants concentrate. The illegal immigrants themselves also suffer significant costs of migration, such as monetary payments for transportation to or across the border and physical costs, including death. These costs, as well as the benefits to the economy of the illegal immigrant labor force, have been the subject of heated political debate, and polls show that U.S. citizens place the issue of immigration at or near the top of the list of domestic problems that must be addressed. The issue of illegal immigration, particularly from Mexico, is doubly important, in that it is also perceived as a national security problem. Dealing with illegal immigration is a thorny political problem, since both political parties seek to curry favor with the Hispanic population, which is now the largest U.S. minority community. Hence, Congress has been reluctant to take drastic action to strengthen border security or to enforce immigration law on illegal immigrants already in the United States unless they commit felonies. This study looks at the impacts on the United States and on potential immigrants of a legal market for immigration into the U.S. The current immigration laws and regulations are summarized, and rules for an immigration market are identified. The basic provision of a market for immigration would allow individuals who qualified for immigration to the United States under current laws and quotas, and who had been awarded legal immigrant status, to sell their right to immigrate to others who could qualify under the law, but who had not completed the process to obtain legal immigrant status. The effects of those structures and rules on legal and illegal immigration are analyzed in the context of economic efficiency and equity. Estimates of the impact of a market for immigration on costs and benefits of immigration, including illegal immigration, are provided, and policy recommendations are identified.*



2006-04

## **A Market for Immigration**

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*Illegal immigration imposes large economic costs on U.S. taxpayers. The costs are disproportionately concentrated on citizens of southern border states and of other states in which illegal immigrants concentrate. The illegal immigrants themselves also suffer significant costs of migration, such as monetary payments for transportation to or across the border and physical costs, including death. These costs, as well as the benefits to the economy of the illegal immigrant labor force, have been the subject of heated political debate, and polls show that U.S. citizens place the issue of immigration at or near the top of the list of domestic problems that must be addressed. The issue of illegal immigration, particularly from Mexico, is doubly important, in that it is also perceived as a national security problem. Dealing with illegal immigration is a thorny political problem, since both political parties seek to curry favor with the Hispanic population, which is now the largest U.S. minority community. Hence, Congress has been reluctant to take drastic action to strengthen border security or to enforce immigration law on illegal immigrants already in the United States unless they commit felonies. This study looks at the impacts on the United States and on potential immigrants of a legal market for immigration into the U.S. The current immigration laws and regulations are summarized, and rules for an immigration market are identified. The basic provision of a market for immigration would allow individuals who qualified for immigration to the United States under current laws and quotas, and who had been awarded legal immigrant status, to sell their right to immigrate to others who could qualify under the law, but who had not completed the process to obtain legal immigrant status. The effects of those structures and rules on legal and illegal immigration are analyzed in the context of economic efficiency and equity. Estimates of the impact of a market for immigration on costs and benefits of immigration, including illegal immigration, are provided, and policy recommendations are identified.*

### **I. Introduction**

Illegal immigration imposes large economic costs on U.S. taxpayers. The costs are disproportionately concentrated on citizens of southern border states and of other states in which illegal immigrants concentrate. The illegal immigrants themselves also suffer significant costs of migration, such as monetary payments for transportation to or across the border and physical costs, including death. These costs, as well as the benefits to the economy of the illegal immigrant labor force, have been the subject of heated political debate, and polls show that U.S. citizens place the issue of immigration at or near the top of the list of domestic problems that must be addressed. The issue of illegal immigration, particularly from Mexico, is doubly important in that it is also perceived as a national security problem. Dealing with illegal immigration is a thorny political problem, since both political parties seek to curry favor with the Hispanic population, which is now the largest U.S.

minority community. Hence, Congress has been reluctant to take drastic action to strengthen border security or to enforce immigration law on illegal immigrants already in the United States unless they commit felonies.

This study looks at the impacts on the United States and on potential immigrants of a legal market for immigration into the U.S. The current immigration laws and regulations are summarized, and rules for an immigration market are identified. The basic provision of a market for immigration would allow individuals who qualified for immigration to the United States under current laws and quotas, and who had been awarded legal immigrant status, to sell their right to immigrate to others who could qualify under the law, but who had not completed the process to obtain legal immigrant status. The effects of those structures and rules on legal and illegal immigration are analyzed in the context of economic efficiency and equity. Estimates of the impact of a market for immigration on costs and benefits of immigration, including illegal immigration, are provided, and policy recommendations are identified.

## **II. Immigration Law**

Federal immigration laws are a complex and confusing web of rules, regulations, quotas, designations and classifications. Nevertheless, underpinning this complexity is a relatively straightforward framework. Below is a brief summary of this framework, and includes an overview of immigration law, refugee and asylee law, naturalization, and the history of U.S. immigration law (including naturalization and refugee law). This summary is not intended to be exhaustive, but merely an overview for purposes of this paper.

### **Immigration**

Under U.S. law an immigrant is a foreign-born individual who has been admitted to reside permanently in the United States as a "Lawful Permanent Resident" or "LPR." A foreign-born individual may become an LPR in one of three ways: 1) family-sponsored immigration, 2) employment-based immigration, or 3) diversity visa lottery. Below is a brief description of each method.<sup>1</sup>

#### *Family-Sponsored Immigration*

Family-sponsored immigration allows U.S. citizens and LPRs to bring family members from other countries to live permanently in the United States. Citizens may sponsor their spouses, children, parents (if the citizen is over 21), and siblings (if the citizen is over 21). LPRs may sponsor their spouses and unmarried children. Approximately 75% of regular immigration to the United States is accomplished through family-sponsored immigration.<sup>2</sup>

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<sup>1</sup> *Immigration Basics 2005*, National Immigration Forum (2005).

<sup>2</sup> *Id.*

Current U.S. immigration laws places family members in one of two tiers. The first is limited to "immediate relatives" of U.S. citizens. These include spouses, parents and unmarried minor children. Immigrant visas for this category are not capped and have equaled approximately 350,000 in recent years. The second tier includes all other "family sponsorship" immigrants. These individuals fall into the "family preference system," which categorizes the relationship between the immigrant and the sponsoring family member into a "preference." Each preference is allotted a certain number of visas, with the entire family preference system capped at 226,000 visas per year in the recent past. Family-sponsored immigration is capped at aggregate 480,000 visas; however, this cap may be exceeded due primarily to the absence of a cap on "immediate relatives." When more applications for visas are filed for a preference category than are available, the preference is oversubscribed. As of 2005, all visa preference categories are oversubscribed. For example, due to oversubscription, the spouse or a minor child of an LPR must wait more than four years to obtain a permanent immigrant visa. Depending on the individual's home country, a sibling of a U.S. citizen can expect to wait anywhere from 12 to 22 years at a minimum. Generally an "oversubscriber" is not allowed a visitor's visa due to the risk that the individual will not leave the United States upon expiration of the visa.<sup>3</sup>

### *Employment-Based Immigration*

Employment-based immigration permits immigrants with certain skills and talents needed in the United States to immigrate in order to work there. Current immigration law allocates 140,000 visas for employment-based immigration each year.<sup>4</sup>

In order to obtain an employment-based visa, an employer of the immigrant usually must petition the Bureau of Citizenship and Immigration Services for that individual. However, priority workers, investors and certain other immigrants may petition on their own behalf. U.S. immigration law divides employment-based visas into five preferences. "First preference" visas are issued to "priority workers," who are roughly defined as "outstanding professors and researchers" and "certain multinational executives and managers." This first preference visas comprise 28.6% (approximately 40,000) of the employment-based visas. "Second preference" visas are issued to "members of professions holding advanced degrees or aliens of exceptional ability." As with first preference visas, second preference visas comprise 28.6% of total employment-based visas as well as any unused first preference visas. "Third preference" visas are issued to "skilled workers, professionals, and other workers." "Other workers" excludes unskilled labor and seasonal or temporary workers and is allocated 5,000 visas. Skilled workers must be capable of performing skilled labor requiring at least two years training or experience. Third preference visas comprise 28.6% of the total employment based visas plus any remaining first or second preference visas. "Fourth preference" visas are issued to "special immigrants." These include religious workers and ministers. This preference comprises 7.1% of the total (approximately 10,000). "Fifth preference" visas are reserved for persons who will invest between \$500,000 and \$3,000,000 (depending on the area of the country) in a job-creating enterprise. U.S. law requires that each such investor employs at least ten U.S. workers. Fifth preference visas comprise 7.1% of the total employment based visas.

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<sup>3</sup> Id.

<sup>4</sup> Id.

Second and third preference workers must, among other things, obtain a certificate from the United States indicating that the United States has insufficient workers who are willing, qualified and able to do the work of the immigrant. In addition, the Labor Department must confirm that his presence will not adversely affect the wages and working conditions of U.S. workers.

In addition to the above permanent visas, the United States issues temporary visas to certain non-immigrant "highly skilled" workers, certain graduates of U.S. universities, temporary, and seasonal agricultural workers. In 2005, the cap on such visas is approximately 150,000.

Because only 5,000 permanent visas are issued to workers who don't require high skills, and because of the high demand for unskilled labor in the United States, the demand for undocumented workers is particularly high. U.S. Citizenship and Immigration Services anticipates that the 66,000 temporary visas allocated for seasonal or temporary workers will be depleted within the first 6 months of fiscal 2005. Interestingly, the cap for temporary visas for skilled workers was reached the first day of fiscal 2005. Congress since allocated an additional 20,000 visas to such workers.

#### *Diversity Lottery*

In 1990, Congress established an annual "diversity" lottery program to set aside a certain number of visas for people from countries that send relatively few immigrants to the U.S. This was instituted in an effort to prevent all the visas from being awarded to only a handful of countries. Winners of this diversity lottery are granted permanent residence without needing to qualify for family-based or employment-based immigration. The State Department designates eligible countries. Citizens of only those countries may enter the lottery. The State Department has designated citizens of all countries eligible to enter except for the 16 countries sending the most immigrants in the past five years. Those 16 countries are Canada, China, Colombia, Dominican Republic, El Salvador, Haiti, India, Jamaica, Mexico, Pakistan, Philippines, Russia, South Korea, United Kingdom (except Northern Ireland) and Vietnam. Participants in the lottery must have a high school equivalent education or, within the previous five year, have two years work experience in an occupation that requires at least two years of training or experience. Diversity visas currently are capped at 50,000.<sup>5</sup>

#### **Refugees and Asylees**

Refugees and asylees have the commonality of seeking protection in the United States. The only substantive difference between the two is the place of application. Refugees apply while outside the United States, whereas asylees apply while inside the United States.

If awarded refugee status, the refugee is sent to the United States and is given assistance through the "refugee resettlement program." The number of refugees is capped in 2005 at 50,000. This quota is allocated among Africa (20,000), Europe/Central Asia (9,500), East Asia (13,000), Near East/South Asia (2,500) and Latin America/Caribbean (5,000). In addition to this 50,000, the United

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<sup>5</sup> Id.



States has set an unallocated reserve for up to 20,000 refugees. The United States grants asylee status to up to 10,000 persons each year. Obtaining refugee or asylee status provides that individual with permanent residency in the United States.

In order to obtain refugee or asylee status, one must, among other things, have a "well-founded fear of persecution" in his homeland based on race, religion, membership in a social group, political opinion or national origin.<sup>6</sup>

### **Benefits to Immigrants**

The United States offers certain benefits to immigrants depending on, among other things, their immigrant status, when they entered the United States, their work history, their income, their length of residence, their age, their state of residence. Generally speaking, most benefits programs are open only to long-term, lawful immigrants. However, some programs such as school lunch and emergency medical services are open to all. Undocumented immigrants or illegal aliens are not eligible for nearly all federal benefits. The benefits different states give such undocumented immigrants and illegal aliens vary.<sup>7</sup>

### **Naturalization**

Naturalization is the process by which eligible legal immigrants become U.S. Citizens.<sup>8</sup> As indicated below, U.S. laws place several restrictions on who may become a naturalized citizen. Generally speaking, immigrants must be 18 year of age and have resided at least five continuous years in the United States, though the time frame may be shortened in certain circumstances. Immigrants must have "good moral character" and, with certain exceptions, an ability to speak, read, and write ordinary English. Generally, the immigrant must have a basic understanding of U.S. government and American history.

Once an immigrant becomes a naturalized citizen of the United States, he may enjoy all the constitutional and statutory rights of other citizens. These include the right to vote, hold elected office (except the Presidency) and sit on a jury, hold certain government and private jobs requiring security clearance, travel abroad for unrestricted periods of time, and access restricted federal programs.

### **History of U.S Immigration Law**

From its beginning, the United States, like any other country, has had to address the issue of citizenship. That is, it must decide who it will allow to enter and to remain within its borders and under what conditions it will do so. The first federal act addressing this issue, the Act of March 26, 1790, set at two years the minimum residency requirement necessary for naturalization.<sup>9</sup> Aside from taking a

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<sup>6</sup> Id.

<sup>7</sup> Id.

<sup>8</sup> Id at 15.

<sup>9</sup> Naturalization Act of June 18, 1798 (1 Statutes-at-Large 566)

relatively simplistic approach, it reflected the reality that laws often reflect the then-current political, economic, social and cultural environment. In the late 1700s, the United States was a sparsely populated, agrarian nation. As the young government grew, it began to see a need for placing more formalities on obtaining the rights of citizenship. By 1798, the minimum residency period had grown to fourteen years, and rules regarding record-keeping of naturalization, formal declaration of intent to seek naturalization, reporting of aliens arriving by ship, and registration of resident aliens had been established.<sup>10</sup> In that same year, Congress passed a bill permitting the President to arrest and deport any alien deemed dangerous to the United States,<sup>11</sup> thus displaying the first immigration law to address issues of national security. By 1802, the United States had reduced the residency requirement to five years and added to the naturalization requirements the prerequisite that the alien possess good moral character and allegiance to the Constitution.<sup>12</sup>

Congress took its first steps toward nuanced complexity when, in 1824, it differentiated the rules for aliens entering the United States as minors and those entering as adults,<sup>13</sup> and in 1855, it began distinguishing between temporary and permanent aliens.<sup>14</sup>

The 1862 law prohibiting the transportation of "coolies" on American vessels not only had the practical effect of hindering Chinese immigration, it also marked the first in a long string of laws aimed at excluding entire groups of people.<sup>15</sup> By 1864, immigration had become a large enough issue that

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<sup>10</sup> Naturalization Act of June 18, 1798 (1 Statutes-at-Large 566) (the residency requirement was reduced to five years four year later, where it has remained to the present); Aliens Act of June 25, 1798 (1 Statutes-at-Large 570)

<sup>11</sup> Aliens Act of June 25, 1798

<sup>12</sup> Naturalization Act of April 14, 1802 (2 Statutes-at-Large 153)

<sup>13</sup> Act of May 26, 1824 (4 Statutes-at-Large 36) (setting a two-year, rather than the general three-year, interval between declaration of intention and admission to citizenship).

<sup>14</sup> Passenger Act of March 3, 1855 (10 Statutes-at-Large 715)

<sup>15</sup> Act of February 19, 1862 (12 Statutes-at-Large 340). See also, Act of March 3, 1875 (18 Statutes-at-Large 477) (barring criminals, prostitutes, "Orientals" without their consent, and prohibiting contracts providing "coolie" labor); Chinese Exclusion Act of May 6, 1882 (22 Statutes-at-Large 58) (made permanent by Act of April 27, 1904 (33 Statutes-at-Large 428) and effectively repealed by Act of April 29, 1943 (57 Statutes-at-Large 70)) (prohibiting, among other things, the naturalization of Chinese); Immigration Act of August 3, 1882 (22 Statutes-at-Large 214) (barring persons likely to become a public charge); Immigration Act of March 3, 1891 (26 Statutes-at-Large 1084) (persons suffering from certain contagious disease, felons, persons convicted of other crimes or misdemeanors, polygamists, and aliens assisted by others by payment of passage); Immigration Act of March 3, 1903 (32 Statutes-at-Large 1213) (anarchists, or persons who believe in, or advocate, the overthrow by force or violence the government of the United States, or of all government, or of all forms of law, or the assassination of public officials); Naturalization Act of June 29, 1906 (34 Statutes-at-Large 596) (making English a requirement for naturalization); Immigration Act of February 20, 1907 (34 Statutes-at-Large 898) (imbeciles, feeble-minded persons, persons with physical or mental defects which may affect their ability to earn a living, persons afflicted with tuberculosis, children unaccompanied by their parents, persons who admitted the commission of a crime involving moral turpitude, and women coming to the United States for immoral purposes, and those persons the President felt would be detrimental on U.S. labor conditions (aimed primarily at Japanese Laborers)); Immigration Act of February 5, 1917 (39 Statutes-at-Large 874) (excluding illiterate aliens and creating the "barred zone" (known as the Asia-Pacific triangle), natives of which were declared inadmissible); Act of March 4, 1929 (45 Statutes-at-Large 1551); Alien Registration Act of June 28, 1940 (54 Statutes-at-Large 670) (membership in proscribed organizations and subversive classes of aliens); Act of May 25, 1948 (62

Congress established the position of "Commissioner of Immigration," appointed by the President to serve under the Secretary of State.<sup>16</sup>

The United States began to slowly move away from exclusion of certain types of people when it instituted the quota system in 1921.<sup>17</sup> The Quota Law of May 19, 1921 limited the number of aliens of any nationality entering the United States to three percent of the foreign-born persons of that nationality who lived in the United States in 1910. Approximately 350,000 such aliens were permitted to enter each year as quota immigrants, mostly from Northern and Western Europe. In addition, the Quota Law exempted from this limitation aliens who had resided continuously for at least one year immediately preceding their application in one of the independent countries of the Western Hemisphere, nonimmigrant aliens such as government officials and their households, aliens in transit through the United States, and temporary visitors for business and pleasure, and aliens whose immigration is regulated by immigration treaty, actors, artists, lecturers, singers, nurses, ministers, professors, aliens belonging to any recognized learned profession, and aliens employed as domestic servants. Three years later, this quota system was supplemented by the Immigration Act of May 26, 1924, which, after 1929, provided that the annual quota for any country or nationality had the same relation to 150,000 as the number of inhabitants in the continental United States in 1920 having that national origin had to the total number of inhabitants in the continental United States in 1920. Preference quota status was established for: unmarried children under 21; parents; spouses of U.S. citizens aged 21 and over; and for quota immigrants aged 21 and over who are skilled in agriculture, together with their wives and dependent children under age 16. Nonquota status was accorded to wives and unmarried children under age 18 of U.S. citizens, natives of Western Hemisphere countries, with their families, nonimmigrants, and certain others. This national origins quota system governed U.S. immigration policy until 1952 when Congress passed the Immigration and Nationality Act (the "INA").<sup>18</sup>

The INA is the basic body of U.S. immigration law today. The INA revised the national origins quota system of the Immigration Act of 1924 by changing the national origins quota formula: it set the annual quota for an area at one-sixth of one percent of the number of inhabitants in the continental United States in 1920 whose ancestry or national origin was attributable to that area. All countries were allowed a minimum quota of 100, with a ceiling of 2,000 on most natives of countries in the Asia-Pacific triangle, which broadly encompassed the Asian countries. In addition, the INA made all races eligible for naturalization, eliminated discrimination between sexes with respect to immigration, introduced a system of selected immigration by giving a quota preference to skilled aliens whose services are urgently needed in the United States and to relatives of U.S. citizens and aliens, placed a limit on the use of the governing country's quota by natives of colonies and dependent areas, and modified and added significantly to the existing classes of nonimmigrant admission. The INA has since been amended, at least in part, approximately 100 times, and a full description of the INA

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Statutes-at-Large 268) (anarchists and similar classes); Internal Security Act of September 22, 1950 (64 Statutes-at-Large 987) (Present and former membership in the Communist party or any other totalitarian party)

<sup>16</sup> Act of July 4, 1864 (13 Statutes-at-Large 385)

<sup>17</sup> Quota Law of May 19, 1921 (42 Statutes-at-Large 5)

<sup>18</sup> Immigration and Nationality Act of June 27, 1952 (INA) (66 Statutes-at-Large 163)

together with its amendments is beyond the scope of this paper. However, the INA made several important changes that should be noted. In 1961, Congress liberalized the quota provisions of the INA, partly by eliminating the ceiling of 2,000 on the Asia-Pacific Triangle and insuring a minimum quota to 100 newly independent nations.<sup>19</sup> In 1965, Congress abolished the national origins quota system, eliminating national origins, race or ancestry as a basis for immigration to the United States.<sup>20</sup> However, Congress maintained the principle of numerical restriction, expanding limits to world coverage by limiting Eastern Hemisphere immigration to 170,000 and placing a ceiling of 120,000 on Western Hemisphere immigration for the first time. However, the Western Hemisphere remained not subject to some provisions applicable to the Eastern Hemisphere. Thirteen years later, in 1976, Congress applied the same 20,000 per-country limit to the Western Hemisphere as applied to the Eastern Hemisphere.<sup>21</sup> Two years later, the separate ceilings for the Eastern and Western Hemisphere immigration were joined into one worldwide quota of 290,000. This cap (exclusive of refugees) was lowered to 270,000 in 1980.<sup>22</sup> Ten years later, it was raised to 675,000, consisting of 480,000 family-sponsored immigrants, 140,000 employment-based immigrants and 55,000 "diversity" immigrants.<sup>23</sup>

In 1948, the United States implemented its first law admitting persons fleeing persecution, by permitting up to 205,000 displaced persons to immigrate during the two-year period beginning July 1, 1948.<sup>24</sup> This amount was later increased to 415,744.<sup>25</sup>

### III. Current Immigration Information

#### Legal and Illegal Immigration

Table 1 provides an overview of recent legal immigration into the United States using information taken from the most recent edition of the *Yearbook of Immigration Statistics*. These numbers and percentages correspond closely to the quotas previously given. Refugees and asylees make up the majority of the persons included in 'Other categories.'

**Table 1. Legal Immigrants**

<b>Category</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
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<sup>19</sup> Act of September 26, 1961 (75 Statutes-at-Large 650)

<sup>20</sup> Immigration and Nationality Act Amendments of October 3, 1965 (79 Statutes-at-Large 911)

<sup>21</sup> Immigration and Nationality Act Amendments of October 20, 1976 (90 Statutes-at-Large 2703)

<sup>22</sup> Refugee Act of March 17, 1980 (94 Statutes-at-Large 102)

<sup>23</sup> Immigration Act of November 29, 1990 (104 Statutes-at-Large 4978)

<sup>24</sup> Displaced Persons Act of June 25, 1948 (62 Statutes-at-Large 1009)

<sup>25</sup> Act of June 16, 1950 (64 Statutes-at-Large 219)



Total	1,064,318	1,063,732	705,827
Family-sponsored immigrants	676,107 (63.5%)	673,817 (63.3%)	492,297 (69.7%)
Employment-based preferences	179,195 (16.8%)	174,968 (16.4%)	82,137 (11.6%)
Diversity program	42,015 (3.9%)	42,829 (4.0%)	46,347 (6.6%)
Other categories	166,964 (15.7%)	172,061 (16.2%)	85,025 (12.07%)

Source: compiled from Table A, page 7, U.S. Department of Homeland Security, *Yearbook of Immigration Statistics, 2003*, U.S. Government Printing Office: Washington, D.C., 2004

Although illegal immigration into the United States has existed from the very beginning of our national period, the problem has become increasingly severe in recent years. Currently, the United States Border Patrol apprehends about 1 million individuals per year who try to cross the border illegally. Around 97% of these apprehensions occur along the Mexican border.

**Table 2. Illegal Immigrants Apprehended**

Category	2001	2002	2003
Total	1,387,486	1,062,270	1,046,422
Border Patrol			
Southwest Sectors(CA, AZ, TX)	1,235,718	929,809	905,065
All Other Sectors	30,496	25,501	26,492
Investigations	121,272	106,960	114,865

Source: compiled from Table 37, page 155, U.S. Department of Homeland Security, *Yearbook of Immigration Statistics, 2003*, U.S. Government Printing Office: Washington, D.C., 2004

Of the 1,046,422 individuals apprehended in fiscal year 2003, the vast majority (more than 91%) came from Mexico (956,963). The next largest group of illegal immigrants came from Central America (40,687), after which came Asia (17,086), South America (10,479), the Caribbean (9,459), Africa (4,707), Europe (3,420), Canada (3,280), and Oceania (331).<sup>26</sup>

Due to the nature of illegal immigration, only approximate figures are available for those individuals who successfully enter the United States. Generally accepted estimates place the number

<sup>26</sup> Table 36, page 154, U.S. Department of Homeland Security, *Yearbook of Immigration Statistics, 2003*, U.S. Government Printing Office: Washington, D.C., 2004

of illegal immigrants at about 500,000 individuals per year. A report by the U.S. Immigration and Naturalization Service indicates that the states with the largest numbers of illegal immigrants are California, Texas, New York, Illinois, and Florida. The official INS estimate for the number of illegal aliens living in the United States in 2000 was 7 million.<sup>27</sup>

### Costs and Benefits

Illegal immigration imposes costs on society and on the immigrants themselves. The costs to society due to illegal immigration include the costs of border enforcement, deportation, law enforcement, crime, drugs, incarceration, education, health care, other social services, and remittances from the illegal immigrants to their home countries. The costs to the immigrants themselves include the costs of transportation to and across the border, documents, and non-pecuniary costs. These non-pecuniary costs include stress or death while attempting an illegal border crossing, and stress caused by living and working illegally in the United States. The benefits to the immigrants include higher incomes and access to social services, and for many illegal immigrants, benefits include automatic U.S. citizenship for children born in the United States. Benefits to society brought about by illegal immigration include a larger labor supply and taxes paid by the illegal immigrants.

Tables 3 and 4 outline some of the more easily calculated costs and benefits to society of illegal aliens living in the United States. The information given in Table 3 is for three border states, but it is also representative of the cost burden placed on all U.S. taxpayers by illegal immigrants. For Arizona, California, and Texas, outlays for education, medical care, and incarceration of illegal aliens totaled \$16.5 billion in 2004. Receipts from illegal aliens, in the form of taxes, totaled almost \$3 billion, leaving a \$13.6 billion cost to be absorbed by society.

**Table 3. Costs and Benefits of Illegal Immigrants in Billions of Dollars - 2004**

<b>Category</b>	<b>Outlays</b>	<b>Receipts</b>	<b>Net Cost</b>
<b>California</b>			
Education			
Illegal Aliens	3.2		3.2
Children of Illegal Aliens	4.5		4.5
Uncompensated Medical Care	1.4		1.4
Incarceration	1.4		1.4
Tax Payments		1.7	(1.7)
Total	10.5	1.7	8.8
<b>Arizona</b>			

<sup>27</sup> Office of Policy and Planning, U.S. Immigration and Naturalization Service, *Estimates of the Unauthorized Immigrant Population Residing in the United States: 1990 to 2000*

Education			
Illegal Aliens	0.33		0.33
Children of Illegal Aliens	0.48		0.48
Uncompensated Medical Care	0.40		0.40
Incarceration	0.08		0.08
Tax Payments		0.257	(0.257)
Total	1.29	0.257	1.033

### ***Texas***

Education			
Illegal Aliens	1.68		1.68
Children of Illegal Aliens	2.35		2.35
Uncompensated Medical Care	0.52		0.52
Incarceration	0.15		0.15
Tax Payments		0.97	(0.970)
Total	4.70	0.97	3.73
<b>Grand Total</b>	<b>16.49</b>	<b>2.927</b>	<b>13.563</b>

Source: compiled from three reports by the Federation for American Immigration Reform: *The Costs of Illegal Immigration to Californians* (6 Dec. 2004), *The Costs of Illegal Immigration to Arizonan* (3 June 2004), and *The Costs of Illegal Immigration to Texans* (6 April 2005).

Education, medical care, and incarceration of illegal aliens are some of the most easily recognizable costs to society. Remittances from illegal immigrants also represent a concrete cost to society in the United States. A remittance can simply be viewed as a monetary gift from an individual inside the United States to an individual outside of the United States. Remittances represent a loss to society because they are purchasing power that is removed from the economy. In 2004, remittances from the United States to Latin America totaled \$30 billion dollars. Not all remittances from the United States to Latin America come from illegal immigrants, however. A study done by the Banco de Mexico gives a better picture of the costs of illegal immigration to the United States. In the first three quarters of 2004, \$13.8 billion was sent to Mexico as remittances. Of that \$13.8 Billion, 83 percent came from Mexicans living as illegal immigrants outside of Mexico. While these figures provide only a rough idea of the cost to the U.S. economy of remittances from illegal aliens, they represent a very real cost, one that could easily total \$15 billion per year.

**Table 4. Remittances from the United States - 2004**

Total to Latin America.....	\$30 Billion
To Mexico.....	\$17 Billion (of which 83% came from illegal aliens)

Source: *Remittances from the US to Latin America, 2004*, Inter-American Development Bank  
<http://www.iadb.org/exr/remittances/ranking.cfm>

Banco de Mexico Study, quoted in *Illegal Mexican Immigrants Send the Most Money Home*  
By Marcela Cortes, EFE News Service, Dateline Orlando, Florida, December 17, 2004

The operating budget for the United States Border control can also be seen as a cost to society of illegal immigration. In order to enforce current immigration law and protect the borders of the United States, the U.S. Border Patrol requires a yearly budget of \$1.4 billion.<sup>28</sup>

The costs of illegal immigration to the immigrants themselves are less easily calculated than the previously mentioned figures, as records are not typically kept for illegal activities. However, estimates of the typical fee per person paid to a smuggler for passage over the border are generally around \$2000 for Mexicans. Other immigrants, like Europeans and Asians, are known to pay far more, from many thousands to many tens of thousands of dollars.<sup>29</sup> Other less-easily quantifiable costs to the illegal immigrants include the cost of documents (e.g. Mexican visas for non-Mexicans) and the cost of transportation to the border. Non-pecuniary costs include physical hardship experienced during a border crossing and the stress of living and working in a country illegally, which comes from insecurity and the risk of being punished or deported.

**Table 5. Various Costs**

Typical fee per person to smuggler (coyote).....	\$2,000
Border Patrol Operating Budget.....	\$1.4 Billion per year

The benefits to society of illegal immigration include taxes paid by the immigrants and a larger workforce. The illegal immigrants are often benefited by an increased ability to find remunerative employment, receive an education for themselves and their children, and by automatic U.S. citizenship for their U.S.-born children. The benefits to the immigrants are also reflected in their earnings and the amount of money they are able to send back home.

Interestingly, the average amount of money remitted to Latin American countries per immigrant per year is \$1,805, slightly less than the typical \$2000 paid to a smuggler for entry into the United States.<sup>30</sup>

#### **IV. A Market for Immigration**

##### **Economic Efficiency**

<sup>28</sup> U.S. Customs and Border Patrol website

<sup>29</sup> Mary Jordan, *People Smuggling Now Big Business in Mexico*, Washington Post Foreign Service, 17 May 2001.

<sup>30</sup> *Remittances from the US to Latin America, 2004*, Inter-American Development Bank

Competitive market resource allocation is efficient and bureaucratic resource allocation is inefficient. Hence, a secondary market for immigration permits would increase efficiency of resource allocation by allowing the permits to move to their highest economic use. Greater efficiency of resource allocation increases economic well-being in society, as measured by total surplus. In addition, it is well known that legalization of any economic activity reduces the price of the previously illegal good or service involved, by increasing the supply and by eliminating the risk component in the price.

There are many real-world examples of efficient secondary markets, such as legal ticket scalping. Legal ticket scalping has long been recognized as an activity that improves resource allocation by allowing scarce tickets to be purchased by those willing to pay the most. Individuals who place a high value on their time may not be willing to stand in line to purchase a ticket, but would be willing to pay a price for the ticket higher than the face value. Other individuals who place a relatively low value on their time may be willing to stand in line if they can sell the ticket they purchase at a profit. If society allows the tickets to be resold in a secondary market, both the buyer and the seller in this market, hence, society as a whole, will be better-off.

Another example of the effective application of a secondary market is the case of pollution permits. Competitive markets do not allocate society's resources efficiently if there are "externalities," or spillover effects connected with the production or consumption of a good or service. This is so because the market considers only private, i.e., internal, costs and benefits. External costs or benefits are ignored by the market even though they affect society. Because air pollution caused by, say, a steel mill is a cost to society, but not a private cost to the producers or consumers of steel, the market will not take it into account and the production of steel will be too large for economic efficiency. One way of achieving economic efficiency where pollution exists is to internalize the cost of pollution by taxing it at a rate equal to the external cost of the pollution. The producers of steel then have a choice: eliminate the pollution or pay the tax. Rational producers will eliminate pollution to the point that the marginal cost of eliminating pollution is equal to the tax—the marginal cost of polluting. Since the tax has been set to equal the marginal benefit to society of eliminating pollution, the market will now produce the efficient amount of steel (and will eliminate the efficient amount of pollution). While a tax is an efficient method of dealing with the negative externality of air pollution, it doesn't take into account the fact that eliminating pollution is more expensive for some producers than for others. A secondary market for pollution permits has proven to be an even more efficient method than taxation as a way of dealing with the negative externality of air pollution. In this method, the amount of pollution to be permitted in a region (the efficient amount) is allocated to producers by permit, with the understanding that the pollution permits may be bought and sold. By allowing the permits to be purchased by those willing to pay the most, society guarantees that pollution will be eliminated in the most cost-effective way, and that the optimal amount of pollution to allow in society will be lower than under a strict taxation system. The economic efficiency achieved by the use of secondary markets in these examples would also be achieved by a secondary market for immigration permits.

### **A Secondary Market for Immigration Permits**

Because U.S. immigration law sets quotas for immigration each year, and because the demand for admission into the United States exceeds the supply (quota), a chronic shortage of legal admission



exists. This shortage leads to an illegal market—a black market of sorts—for immigration, and to all of the problems of illegal immigration identified above. If a legal secondary market for immigration permits were to be established, it would eliminate the shortage in the market by establishing a market-clearing price for legal immigration into the U.S. Eliminating the shortage of legal immigration permits would deal a devastating blow to the market for illegal immigration. Because rational potential immigrants would be willing to pay only a fraction of the legal price for illegal entry (because of the risk and other non-pecuniary costs associated with being illegal), the supply of illegal entry opportunities would be significantly reduced as smugglers and “coyotes” found that their services had become much less remunerative. This reduction in illegal immigration would lead to a concomitant reduction in costs to U.S. taxpayers, a higher standard of living, and a more secure society. An immigration system in which qualified individuals who have received immigration permits are allowed to sell these permits in a secondary market to other qualified individuals would improve the economic well-being of both the buyer and the seller, and would ensure that those who legally immigrate to the United States are those who most highly value the immigration opportunity.

### *Secondary Market Rules*

This type of a market for immigration would be applicable to all individuals involved in legal immigration except for refugees and asylees. As per current immigration law, the total number of permanent visas potentially involved in this market is the sum of all family-sponsored visas (approx. 575,000/year), employment-based visas (approx. 140,000/year), and diversity lottery visas (50,000/year), or around 765,000 visas per year.

In addition to these permanent visas, all of the ~150,000 temporary work visas per year could be included in this secondary market.

Only 5,000 of the employment-based visas are given to workers without high skills, and 66,000 of the temporary visas go to seasonal or temporary workers. A market for these 71,000 visas would have the most direct impact on illegal immigration.

### **Likely Effects of a Market for Immigration**

A market for immigration, as outlined above could have a significant, positive impact on the economy and society of the United States. Likely effects of such a market include:

- 1 Higher average level of human capital of legal immigrants, leading to increases in average and marginal product of labor, reflected in higher incomes and a higher standard of living for U.S. citizens.
2. Greatly reduced level of illegal immigration and associated social costs, leading to a higher standard of living for U.S. citizens. (In this area alone, the current costs of illegal immigration to citizens of California, Arizona, and Texas average about \$1,000 per legal family.)
3. Greater efficiency of resource allocation, hence, an additional contribution to a higher

standard of living for U.S. citizens.

4. More secure borders.

## V. The Model

The impact of a market for immigration on the decision to immigrate illegally can be more formally specified using a standard migration model:

$$(1) \quad PDV = \sum_{t=1}^T (B_{nt} - B_{ot})/(1+r)^t - C,$$

where PDV = present discounted value of migration

$B_{nt}$  = expected utility derived from new job in year  $t$

$B_{ot}$  = expected utility derived from old job in year  $t$

$r$  = subjective rate of time preference

$C$  = expected utility lost in the move itself

$T$  = length of time (in years) one expects to work in job  $n$

In this model, an individual will migrate if PDV is positive, hence the probability of migration is directly related to  $B_{nt}$  and  $T$ , and is inversely related to  $B_{ot}$ ,  $r$ , and  $C$ . We can compare the likelihood of a given potential immigrant entering the U.S. legally or illegally by looking at the differences in  $B_{nt}$ ,  $C$ , and  $T$  for legal and illegal entry. The expected utility derived from the new job in a given year ( $B_{nt}$ ) would likely be higher for legal immigrants than for illegal immigrants for at least two reasons. First, employers of legal immigrants cannot easily pay their workers wages less than the minimum wage or the competitive wage, if higher than the minimum wage. In addition, legal immigrants will have legitimate social security numbers and their employers will almost surely make the required social security contributions for their workers. Hence, legal immigrants can expect to earn a higher wage than illegal immigrants, and will more likely receive social security retirement benefits, both of which would result greater expected utility from working in the United States. Second, legal immigrants do not need to worry about deportation. The elimination of this stress factor would undoubtedly increase the expected utility derived from work for legal workers.

If a potential immigrant can purchase a legal entry permit into the United States, the cost of the move, in terms of lost utility ( $C$ ), would be greatly reduced relative to the financial, emotional, and physical costs of entering the United States illegally. Also, because of the possibility of detection and deportation, the length of time an illegal immigrant would expect to work in a new job in the U.S. ( $T$ ) would be shorter than that expected by a legal immigrant, *ceteris paribus*. For all three reasons, then—greater expected utility from the new job, small expected utility loss from the move, and longer time horizon—if legal entry into the United States is an option for potential immigrants, that option would most likely be chosen. In fact, the larger value of legal immigration *vis-à-vis* illegal immigration would induce potential immigrants to pay a premium for the right to immigrate legally. The lower demand for illegal entry would reduce the reward for immigrant smuggling, as well,

resulting in fewer smugglers and even greater risk—and lower likelihood—of illegal entry.

An interesting aspect of the immigration model is the role of the subjective rate of time preference,  $r$ . For given values of the other variables in the model, the lower the rate of time preference, the greater the reward for immigration. The implication of this characteristic of the model is that, other things being equal, those most likely to immigrate (legally or illegally) are those with the lowest subjective rate of time preference. For the economy as a whole, lower rate of time preference—greater willingness to wait for gratification—is a positive factor for economic growth, since individuals with lower rates of time preference are more likely to save, and saving is necessary to finance the investment in real and human capital that drives economic growth. This self-selection on the basis of time preference is an important, but often-overlooked aspect of immigration that has a positive impact on the economic well-being of society, *ceteris paribus*.

#### **IV. Conclusions**

The illegal market for immigration that exists because of excess demand for the limited number of legal admissions into the United States has led to significant costs imposed on U.S. society. The strain on states' social services budgets and on their legal systems, the increased crime rates, and the perceived danger to national security because of unsecured borders has made illegal immigration one of the most important political issues in the United States. A legal secondary market for immigration permits would eliminate the shortage in the market by establishing a market-clearing price for legal immigration into the U.S. and would greatly reduce the market for illegal immigration. This reduction in illegal immigration would lead to a concomitant reduction in costs to U.S. taxpayers, a higher standard of living, and a more secure society. An immigration system in which qualified individuals who have received immigration permits are allowed to sell these permits in a secondary market to other qualified individuals would improve the economic well-being of both the buyer and the seller, and would ensure that those who legally immigrate to the United States are those who most highly value the immigration opportunity.